



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Edelen Releases Audit of Jackson County Sheriff's Office

FRANKFORT, Ky. – State Auditor Adam Edelen today released the audit of the 2011 financial statement of Jackson County Sheriff Denny Peyman. State law requires the auditor to annually audit the accounts of each county sheriff. In compliance with this law, the auditor issues two sheriff's reports each year: one reporting on the audit of the sheriff's tax account and the other reporting on the audit of the fee account used to operate the office.

The audit will be referred to the Jackson County Attorney.

The audit found that the sheriff's financial statement presents fairly the revenues, expenditures, and excess fees of the Jackson County sheriff in conformity with the regulatory basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

Accurate records should be maintained in accordance with KRS 68.210. KRS 68.210 authorizes the State Local Finance Officer to install a system of uniform accounts that set the minimum requirements for the handling of public funds for government officials. Books of original entry for receipts and disbursements along with monthly bank reconciliations are included in these requirements. Receipts and disbursements ledgers should be prepared from source documents and should be posted daily. Receipts should be posted from daily checkout sheets while disbursements should be posted from the actual checks and debit memos, if applicable. Monthly bank reconciliations should also be prepared and should include all receivables and liabilities for that month. Each month, the bank reconciliation should be reconciled to the receipts and disbursements ledgers.

The Sheriff failed to accurately prepare receipts and disbursements ledgers or to maintain accurate monthly bank reconciliations. The Sheriff began using Quickbooks during the middle of the calendar year but failed to input the receipt and disbursement amounts from source documents, and instead used the bank statements. Receipts were not divided into categories and disbursements were not all-inclusive. Monthly bank reconciliations were being performed; however, they were not taking into account any receivables or liabilities for each month, nor was the bank reconciliation agreed to the Sheriff's records.

Failure to maintain accurate receipts and disbursements ledgers and failure to prepare accurate monthly bank reconciliations resulted in a deficit for calendar year 2011. In order to prevent this from re-occurring, we recommend the Sheriff begin maintaining accurate receipts and disbursements ledgers, prepared from source documents. We further recommend the Sheriff perform accurate monthly bank reconciliations. The Sheriff should also ensure that the ending balance per the bank reconciliation agrees to the ending book balance per the Sheriff's records.

Sheriff's response: This has all been taken care of. The office is running on QuickBooks and all bank statements and ledgers are current.

Receipts should be issued in triplicate and accounted for daily. The system of uniform accounts authorized by KRS 68.210 requires pre-numbered three-part receipt forms be issued for all receipts. One copy should be given to the payor, one copy should be attached to the daily checkout sheet, and one copy should remain in the file. Voided receipts should be marked void, with two copies kept in sequential order with the daily checkout sheet and one copy remaining in the file. Receipts should be sequentially accounted for on a daily basis.

The Sheriff's office utilizes duplicate receipt forms instead of triplicate forms, with one copy given to the payor and the other copy attached to the daily checkout sheet. Voided receipts are not being maintained with the daily checkout sheets, nor are receipts are not put in sequential order. Failure to monitor the sequential order of receipts could lead to missing receipts, and in turn missing funds. We recommend the Sheriff comply with the system of uniform accounts by issuing triplicate receipt forms, ensuring that all receipts are sequentially accounted for, including voided receipts.

Sheriff's response: A new receipt book has been purchased and place in office with triplicate form.

The Sheriff should ensure that expenditures are for official business. During calendar year 2011, the Sheriff failed to ensure expenditures were for official business. Juror meals accounted for \$565. By confirming with the Circuit Clerk's office, it was determined that only \$46 was for meals actually purchased for jurors. The remaining \$519 was found to be made on days when there were no jury trials being held. These purchases are not considered to be for allowable purchases of the office and will be disallowed. Funk v. Milliken, 317 S.W. 2d 499 (Ky 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public and not primarily personal in nature.

Our testing procedures indicate the Sheriff made expenditures that were not considered allowable. We recommend the Sheriff reimburse the fee account \$519, from personal funds, for these unallowable expenditures.

Sheriff's response: I was the one that brought it to the auditor's attention after I learned of a complaint to me. I had no knowledge of the spending but will repay the \$519.

The Sheriff should eliminate the deficit of \$112,889 in his official 2011 Fee Account. The Sheriff has a deficit of \$112,889 in his official 2011 Fee Account. This deficit can be attributed to the following:

- (a) Poor and inaccurate records as noted in 2011-01, which resulted in a deficit of \$28,868 as of December 31, 2011. The Sheriff did not open a new bank account for his calendar year 2012 Fee Account, which led to \$28,868 of 2012 receipts being used for 2011 disbursements.
- (b) 2011 payroll liabilities due the Fiscal Court in the amount of \$65,275;
- (c) An overpayment of commissions due to the 2011 Tax Account in the amount of \$28,252;
- (d) In addition to the above, the Fee Account is due \$8,987 from the Fiscal Court for an excess fee payment made on January 9, 2012 in error. The Fee Account is also due \$519 from the Sheriff for disallowed expenditures.

As noted in 2011-01, the Sheriff failed to maintain accurate receipts and disbursements ledgers along with accurate monthly bank reconciliations. Accurate records, along with the reconciliation of these records, would have prevented this deficit from occurring. We recommend the Sheriff consult with the Fiscal Court and County Attorney to determine how to eliminate this deficit.

Sheriff's response: I have set a meeting up with the Judge Executive on September 5, 2012 to discuss this matter. It will be resolved.

The Sheriff's office lacks adequate segregation of duties. The Sheriff's office lacks adequate segregation of duties over receipts, the reconciliation process, and other general areas in the Fee Account. During our review of internal control, we noted that two individuals are primarily responsible for most receipt/reconciliation functions, including opening incoming mail, receiving and recording cash, preparing bank deposits, preparing the daily checkout sheets, preparing bank reconciliations, preparing the financial reports and monitoring budget to actual amounts.

A limited budget places restrictions on the number of employees a Sheriff can hire. When faced with these types of restrictions, strong compensating controls should be in place to offset the lack of adequate segregation of duties. Proper segregation of duties, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting, while also protecting employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should implement strong compensating controls including, but not limited to, the following: (1) Recount cash at the end of each day and compare to the deposit ticket and daily

checkout sheet. The Sheriff should initial the deposit ticket and daily checkout sheet to document agreement. (2) Reconcile bank account monthly to the receipts and disbursements ledgers. The Sheriff should initial the bank statement and the receipts and disbursements ledgers to document agreement. (3) Compare budgeted receipts and disbursements to actual amounts to ensure that receipts and disbursements are within budget and not being overspent. The Sheriff should initial the comparison to document his review.

Sheriff's response: I look at all daily deposits, bank statements and ledgers and I initial all of them daily.

Auditor's reply: The Sheriff did initial the bank statements and daily checkout sheets, but he has not recounted the cash to ensure their accuracy. As stated in finding 2011-01, bank reconciliations, receipts ledgers, and disbursements ledgers were not correct and a budget to actual comparison was never done.

The Sheriff failed to adequately monitor fuel purchases. The Sheriff failed to adequately monitor fuel purchases, resulting in questioned costs of \$7,636 for calendar year 2011. Fuel purchases should only be made for official vehicles belonging to the Sheriff's office. In addition, when fuel is purchased, the license plate number along with the odometer reading should be recorded on each receipt. The receipt should also include the signature of the individual purchasing the fuel. On a monthly basis, the Sheriff should reconcile the individual gas receipts to the invoice to ensure that all purchases are properly handled.

During calendar year 2011, fuel was purchased by several individuals, which appear to be for personal use, as these individuals did not maintain an official vehicle. There were also instances where receipts could not be located or were missing signatures. Receipts did not include license plate numbers or odometer readings. Individual gas receipts were not reconciled to the invoice on a monthly basis. The Sheriff also purchased fuel for two constables. Constables are fee officers and collect fees for their services. Since they are provided a fee, the Sheriff should not purchase fuel for the constables.

Good internal controls ensure that fuel purchases are properly handled. The Sheriff should take steps to ensure that fuel purchases are being used for official vehicles only. The Sheriff should require license plate numbers and odometer readings to be included on each receipt, along with the individual's signature. The Sheriff should reconcile, on a monthly basis, individual receipts to the invoice. We also recommend the Sheriff cease the purchase of fuel for constables.

Sheriff's response: I was unaware of any gas going into employees' vehicles unless it was authorized by me beforehand. I did use extra gas in cars when buying drugs. I did buy gas for the constables to get more patrolling in their areas. I have already complied to getting plate number, gallons and odometer readings from each purchase along with their signatures. Constables are no longer given gas to help patrol the county.

The Sheriff exceeded the salary limit set by fiscal court along with the approved budget. The Fiscal Court annually sets the salary limit for the Sheriff's Office. During calendar year 2011, the Sheriff exceeded that limit by \$4,371. In addition, auditor noted that the Sheriff exceeded his total budgeted expenditures by \$44,871. In the future, we recommend the Sheriff stay within the salary limit set by the Fiscal Court or seek an amendment to this amount. We

further recommend that the Sheriff monitor his budget to actual expenditures in order to stay within budget.

Sheriff's response: This is being taken care of.

The sheriff's responsibilities include collecting property taxes, providing law enforcement and performing services for the county fiscal court and courts of justice. The sheriff's office is funded through statutory commissions and fees collected in conjunction with these duties.

The audit report can be found on the [auditor's website](#).

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The Auditor of Public Accounts ensures that public resources are protected, accurately valued, properly accounted for, and effectively employed to raise the quality of life of Kentuckians.

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